

## Citizens Advice response to Ofgem's final proposals on self-disconnection and self-rationing

Self-disconnection is part of life for too many customers who use prepayment. Both Ofgem and Citizens Advice research has previously shown that around 1 in 7 people using prepay meters are disconnected each year<sup>1</sup>, although more recent research by Citizens Advice (using a different methodology) suggested that 1 in 3 had disconnected in 2019/20.<sup>2</sup> Our research has also shown that these disconnections can have a serious impact on both the physical and mental health of those affected.

As we said in our response to Ofgem's call for evidence on self-disconnection and rationing, a fair society and a properly functioning energy market should guarantee people a reliable energy supply, rather than being left in cold, dark homes.<sup>3</sup> Although this issue is not Ofgem's alone to resolve, the regulator can play a key part in reducing the harm to consumers.

The COVID-19 crisis has further laid bare the extent to which customers who use prepay - and especially traditional prepay - can be at risk of disconnection if they can't afford to top up or are unable to access top-up facilities. While the current voluntary agreement<sup>4</sup> between BEIS and energy suppliers has provided real, additional support during the pandemic, it's clear that enduring and enforceable rules are required.

Last year we called for Ofgem to radically improve the prepay experience and to set an ambition of seeing an end to self-disconnection as part of its vulnerability strategy.<sup>5</sup> We think these proposals generally represent a significant step forward in reaching these goals:

- By improving supplier identification of self-disconnection and requiring additional support, these changes should mean consumers are less likely to use prepay if it is an unsuitable method for them and are better supported in emergencies. Many of the benefits are likely to be felt most by customers

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<sup>1</sup> Citizens Advice (2018) [Improving support for prepay customers self-disconnecting](#)

<sup>2</sup> Citizens Advice (2020) [The end of the beginning](#)

<sup>3</sup> Citizens Advice (2018) [Response to Ofgem's call for evidence on prepayment self-disconnection and self-rationing](#)

<sup>4</sup> BEIS (2020) [Agreement between BEIS and domestic energy supply companies](#)

<sup>5</sup> Citizens Advice (2019) [Citizens Advice response to Ofgem's open letter to updating the Consumer Vulnerability Strategy](#)

that use smart prepayment. We continue to call for suppliers to prioritise installation of smart prepay meters in the coming months, particularly for people who are more likely to be affected by COVID-19 this winter (e.g. people who are shielding).

- We welcome the proposals to update the ability to pay principles and move these into the licence. This will give the principles more prominence, and set out clearly to suppliers what steps to take when setting up repayment plans. This is particularly important at this time, with our research estimating 2.8 million people have fallen behind on their energy bills.<sup>6</sup> These changes will also directly help in efforts to reduce self-disconnection, with our research showing customers repaying a debt were more than twice as likely to have disconnected than those who weren't.<sup>7</sup>
- Our research found that 1 in 5 prepay customers had severely rationed their energy usage in 2019/20.<sup>8</sup> We are disappointed that Ofgem is not introducing a requirement for suppliers to identify self-rationing at this stage, but defining this in licence and requiring suppliers to provide support is an important first step. Industry now needs to do more to develop best practice in monitoring and supporting customers who are severely limiting their energy usage.
- While we broadly support the intent of the proposals, we have set out detailed comments in our response on how the proposed drafting can be improved. Some of these changes are vital in order for the proposals to work in practice or achieve Ofgem's policy intent, while we think others would maximise consumer benefit from the proposals.

We appreciate Ofgem moving forward with this programme of work, as a priority, following the general pause of its work programme earlier this year. It is important that the changes are implemented as soon as possible. In the context of economic recession, the end of the furlough scheme and rising unemployment, it's crucial that these proposals are enacted in full before the end of the year, and ideally before the onset of winter.

These changes and the recent decision to extend the prepay price cap represent welcome steps by Ofgem to protect prepay customers, but more is needed. We would like to take this opportunity to also highlight the need to extend rules that put a cap on warrant costs and prohibit using warrants to install prepay meters

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<sup>6</sup> Citizens Advice (2020) [Excess debts](#)

<sup>7</sup> Citizens Advice (2020) [The end of the beginning](#)

<sup>8</sup> Citizens Advice (2020) [The end of the beginning](#)

for certain vulnerable customers, both of which are currently due to expire at the end of the year. Ofgem must also continue to closely monitor how suppliers use the facility to remotely switch smart meters to prepay mode, and ensure that this is being carried out with the informed consent of consumers and only where prepay is a safe method for them to use.

## Identifying self-disconnection

We're pleased that Ofgem will introduce an obligation on suppliers to identify all customers who are self-disconnecting. This is something that consumers strongly support; recent polling by Citizens Advice of prepayment customers found that 7 in 10 respondents support monitoring to check if they are ok, offer financial or practical support, provide energy saving advice and provide information about grants and schemes.<sup>9</sup>

We're keen to understand Ofgem's expectations for how these identification requirements should be implemented by suppliers. We expect that suppliers should identify all disconnections, regardless of how long they are, as the cause of disconnection (whether related to affordability, or organisational factors like forgetting to top up) may not be closely correlated to whether or not it should be a cause for concern. Longer periods of disconnection may be more likely to be related to affordability, but some may be for other reasons (like going on holiday and not topping up enough beforehand). Shorter periods of disconnection may be more likely to be related to organisational issues which are quickly rectified, but frequently being disconnected for short periods could also be related to issues with mental health.

Ultimately, all disconnections have the capacity to cause detriment, and we think suppliers need to put in place processes to identify what support is appropriate from the range of support options set out in the proposals.

We support changes to the drafting to specify the key support required for customers who are self-disconnecting, and in particular the reference to the 'safe and practicable' rules. It is vital that suppliers use identification of self-disconnection to understand whether an alternative payment method would be more appropriate for the customer. In the current drafting it is unclear which rules Ofgem intends to specifically refer to; the current reference to SLC 28.7 (which doesn't exist in licence) could have been intended to be SLC 27.8 (rules on ability to pay) or SLC 28.1A (rules on safety and practicability of prepay meters). In practice we think both of these should be referenced, in order to clearly guide supplier behaviour and lead to the best consumer outcomes.

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<sup>9</sup> Citizens Advice (2020) [The end of the beginning](#)



should inform relevant customers about this support as part of meeting their requirements under SLC 31G.

## **Emergency, friendly and additional support credit**

We welcome the requirement for suppliers to offer emergency and friendly credit to all prepay customers and to offer additional support credit to customers in vulnerable circumstances. We agree that, while suppliers should accompany this form of support with a broader range of more tailored support, it's vital that access to credit is available in the first instance to keep people on supply.

Having access to additional support credit has the potential to offer an important lifeline for consumers to tide them over until they have the money or get round to topping up. As it stands, the wording allows for suppliers to avoid providing additional support credit if they decide it is not in the best interests of the customer. This can ultimately mean leaving someone in an unsafe situation, without access to light, hot water or cooking facilities. We believe it should be mandatory for suppliers to provide additional support credit to maintain supply for consumers in vulnerable circumstances, while the supplier takes steps to understand their situation as fully as possible. This obligation should incentivise suppliers to secure a sustainable solution for the customer, rather than continuing to provide additional support credit.

Nevertheless, we think there are also changes to the relevant drafting that are necessary for the licence to align with Ofgem's policy intent and improve outcomes for consumers.

The current definition of additional support credit used in the drafting will not achieve Ofgem's policy intent in relation to self-rationing, which is that additional support credit needs to be 'accessed ahead of a self-disconnection event'. However, the definition refers to additional support credit being provided at the point the 'meter credit runs out'.

Given the emergency situations that consumers who have self-disconnected or are self-rationing are likely to be dealing with, we also think that SLC 27A.5 should require suppliers to offer additional support credit 'in a timely manner'.<sup>12</sup>

Furthermore, we have concerns that the 'best interest' test used in SLC 27A.7 to determine whether suppliers provide support is novel in the licence and may be open to some interpretation. We think the condition should instead require suppliers to provide additional support credit unless it is 'reasonable and fair in

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<sup>12</sup> This is in line with language used elsewhere in licence, for example in SLC 27.16 on credit refunds.

all the circumstances of the case' not to do so. This language would more closely align with SLC 0 and language used elsewhere in licence<sup>13</sup>, and would require suppliers to have a good understanding of the case before making their decision. This should increase the likelihood that these decisions are made in dialogue with the customer, rather than this simply being 'deemed' by the supplier as the current language in the proposals suggests.

Where suppliers decide not to provide additional support credit it is vital that customers receive appropriate alternative support. This is particularly the case for vulnerable credit meter customers who are self-rationing, for whom additional support credit will not be a relevant option.

We support the requirements at SLC 27A.7 to provide support in line with SLC 0 and 31G.2 as a clear guide to suppliers. We think this could be supplemented with a specific requirement to also consider the safety and practicability of prepay in line with SLC 28.1A. This will ensure that suppliers are prompted to do this in instances of self-rationing events, as well as self-disconnection (as we argued should be required in SLC 27A.1).

Suppliers should record each instance where they decide not to provide additional support credit and Ofgem should monitor this alongside a supplier's total self-disconnection rate, in order to understand how suppliers are implementing these changes and interpreting the option to refuse to provide additional support credit.

We generally agree that the level of additional support credit should be decided by suppliers, and is likely to be dependent on individual circumstances. In order to achieve this outcome Ofgem should amend the drafting of SLC 27A.6 to require suppliers to 'assess the sum of additional support credit it offers to the Domestic Customer *based on all the circumstances of the case* and calculate...'. This would balance the assessment between the needs of the customer and their ability to repay, and should ensure that suppliers do not simply use small default amounts of support credit, which may not be sufficient for some consumers. For example, a person with very low funds waiting to receive their first Universal Credit payment in 2 weeks could require credit to cover this entire period, rather than a small, default amount of credit that may cover only a few days. Requiring customers to repeatedly ask for help, rather than providing full support upfront could be used as a tactic to dissuade customers from seeking support - particularly customers who are self-rationing, whom the supplier will not need to proactively identify under the current proposals.

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<sup>13</sup> For example, in the rules on prepayment meters in SLC 28

Suppliers should record the amount of additional support credit they are providing to customers, in order for Ofgem to be able to monitor that the support they are providing is reasonable. This shouldn't be onerous for suppliers, who should be doing this for their own records and to be able to recover the support credit.

## **Updating the Ability to Pay principles and bringing them into licence**

We are pleased that Ofgem is updating the Ability to Pay principles, enhancing them and bringing them into the licence conditions.

We are particularly concerned about suppliers' use of default rates for debt collection. Our analysis of Ofgem's social obligations data on average debt repayment rates found that smaller suppliers agree to average weekly repayment amounts that are 3 times higher than larger suppliers.<sup>14</sup> This may in part be due to higher default levels, often seen as a 'starting point' for suppliers.

We think the current draft language of SLC 27.8B(d) that requires default amounts to be 'reasonable' should be amended to 'fair and reasonable', in line with language used elsewhere in licence.<sup>15</sup> Ofgem should also set a clear expectation that suppliers should regularly review the levels at which they set their default repayment amounts and be able to evidence their reasons for setting their levels as they are.

Ofgem should clarify what is meant by "initial occurrence", under SLC 27.8B(g), and ensure that the obligation to re-engage with customers is not limited to a single occurrence of a failed payment. For example, when a customer fails to make a payment, 2 years after they previously failed to make a payment, their supplier should proactively contact them again. Their circumstances are likely to have changed and so suppliers should reassess their situation and the suitability of their payment method. If a new arrangement is made in discussion between the supplier and the customer following a failed payment, this should count as a new arrangement, and a subsequent failure to pay should be treated as the 'initial occurrence' for that arrangement. This will further incentivise suppliers to ensure that plans are sustainable.

## **Smart prepayment**

The COVID-19 crisis has shone a light on the potential benefits of smart meter technology, especially for prepayment customers. Suppliers were able to remotely apply credit for customers who were in financial difficulty or couldn't

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<sup>14</sup> Citizens Advice (2019), [Supply and final demand](#)

<sup>15</sup> For example, see SLC 27.16

top up due to self-isolation or shielding. Our recent research showed that smart prepayment meter customers who can use mobile apps or online methods to top up were less likely to self-disconnect during the lockdown than those topping up at shops.<sup>16</sup> Consumers with smart meters are also more likely to receive more support under these proposals, as their self-disconnections will be much more visible to suppliers.

We agree that suppliers should harness the opportunities provided by smart prepayment, and prioritise installation for prepay customers in high risk groups during the COVID-19 crisis (e.g. shielders).

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<sup>16</sup> Citizens Advice (2020) [The end of the beginning](#)